



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Apache Junction Unified School District No. 43**

Year Ended June 30, 2003

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

December 6, 2004

Governing Board  
Apache Junction Unified School District No. 43  
1575 West Southern Avenue, Suite 1  
Apache Junction, AZ 85220

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2003, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Associate Superintendent of Business in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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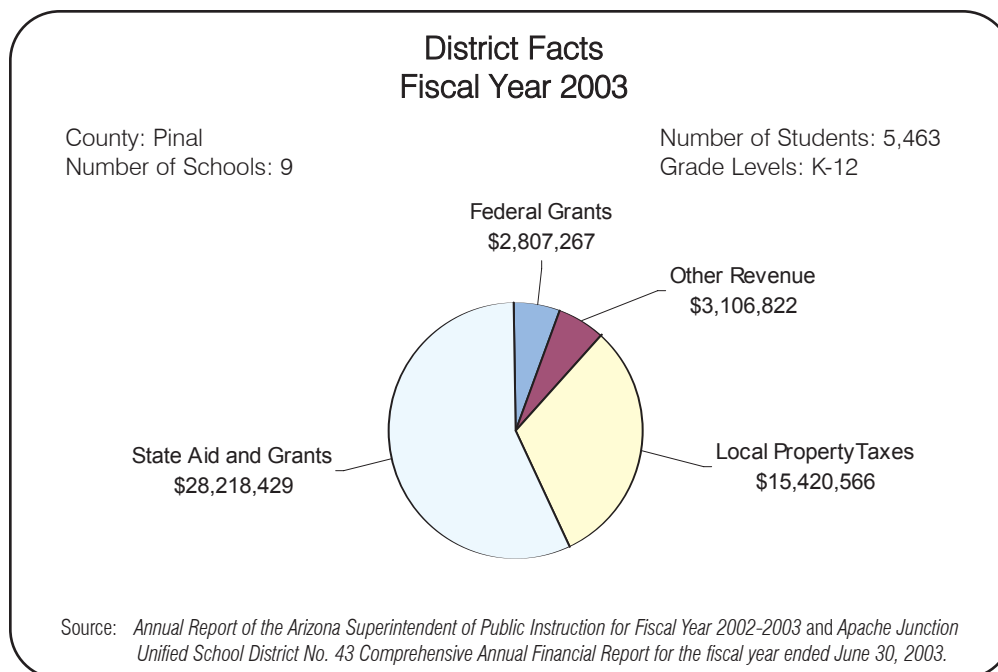


# INTRODUCTION

Apache Junction Unified School District No. 43 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$49 million it received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District also needs to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budget, and annual financial report (AFR) are accurate and complete, and that transactions are properly authorized. However, the District did not fully accomplish this objective. Specifically, the District did not require journal entries to be adequately supported, reviewed, and approved prior to posting them to the accounting records. In addition, the District transferred some monies between funds when these transfers were not authorized by Arizona Revised Statutes (A.R.S.). The District also did not retain signed copies of purchase orders to document the goods or services that were ordered and that the purchase was properly approved.

The District's procedures were not effective to ensure that journal entries and purchases were supported and approved.

Further, in its budget, the District did not properly carry forward Classroom Site Fund unexpended budget balances to the specific funds to ensure that the monies were used in accordance with A.R.S. §15-977. Also, for some special revenue funds, the District reported expenditures on its AFR that did not agree to expenditures in its accounting records.

## Recommendations

The following procedures can help the District record and report accurate financial information:

- Require a supervisor to review and approve journal entries before they are posted to the accounting records.
- Ensure that each journal entry contains explanations, attachments, or document references to support the entry.
- Transfer monies between funds only when specifically authorized by statute.
- Retain signed copies of all purchase orders.
- Verify that sufficient cash is available before authorizing expenditures from cash-controlled funds.
- Carry forward the unexpended budget balances of the Classroom Site Funds to the following year in accordance with A.R.S. §15-978.

A list of authorized transfers can be found on USFR pages III-F-1 through 3.

USFR Memorandum Nos. 194 and 206 provide guidance on properly accounting and budgeting for the Classroom Site Funds.

- Require a second employee to verify that amounts reported on the AFR agree to the accounting records before it is submitted to the County School Superintendent and ADE.

## The District should improve controls over cash receipts and bank accounts

The District receives cash for various purposes, including Project Help and food service. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited in a bank account authorized by A.R.S. However, the District did not have adequate control over its cash receipts or bank accounts. For example, the District did not prepare and issue cash receipt forms for Project Help receipts or deposit the monies in a timely manner. In addition, the District maintained a bank account for Project Help that was not authorized by A.R.S. and also maintained an account that was no longer used. Further, the District did not always maintain accurate records for its bank accounts or prepare accurate bank reconciliations.

Poor cash controls left district monies susceptible to theft or loss.

## Recommendations

To help strengthen controls over cash receipts and bank accounts, the District should:

- Establish bank accounts that are specifically authorized by statute, and promptly close all unauthorized and inactive bank accounts.
- Prepare prenumbered and numerically controlled cash receipt forms for all monies received.
- Deposit monies intact daily when significant, or at least weekly.
- Record all deposits and checks in bank account check registers.
- Prepare written reconciliations monthly for all bank accounts to verify that the check register balances are accurate. Make necessary corrections for errors noted.

A list of authorized bank accounts can be found on USFR page VI-C-2.

Bank reconciliation procedures are outlined on USFR page VI-C-6.



# The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, it could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bidding threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not always issue invitations for bids for purchases that exceeded the sealed bidding threshold and did not always obtain oral price quotations for purchases that required them. In addition, the District purchased an item from an employee and inappropriately documented it as a sole source procurement.

## Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services that individually or in the aggregate would exceed \$32,899.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,899. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Only award a contract for a material, service, or construction item without competition when the Governing Board determines in writing that there is only one vendor that supplies the items or services. Retain this documentation in the purchasing file. Sole source procurements should be avoided except when no reasonable alternative vendor exists.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9, and USFR Memorandum No. 209.

# The District's capital assets lists should be accurate and complete

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not have accurate lists since it did not always include location, tag number, or acquisition method for items on its capital assets list, or location and tag number for items on its stewardship list. In addition, items on the stewardship list could not always be located or were at a different location than indicated on the list. Also, the District did not record construction in progress amounts paid by the School Facilities Board (SFB) directly to vendors on behalf of the District on its capital assets list.

The District had not protected its investment in capital assets.

## Recommendations

The following procedures can help the District improve control over its capital assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Include all required information for all items on the capital assets and stewardship lists.
- Update the capital assets and stewardship lists for items acquired, disposed of, or moved, at least annually.
- Record all costs incurred during capital asset construction, including those costs that SFB paid as construction in progress on the capital assets list until construction is completed. When construction is completed, reclassify the asset from construction in progress to the proper asset category on the capital assets list.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

# The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established, and the District did not ensure that proper cash collection and disbursement procedures were followed. For example, the District did

Student activities monies were at risk of theft or misuse since receipts were not always supported by documentation and disbursements were not always approved by student clubs.

not always retain supporting documentation for cash receipts or obtain student club approval for disbursements. In addition, the District made disbursements without ensuring sufficient cash was available since several clubs had deficit cash balances at June 30, 2003.

## Recommendations

The District should establish and follow proper cash collection and disbursement procedures that include the following:

- Require that student clubs prepare cash collection forms to document and reconcile cash collections and tickets or items sold. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, clubs should prepare cash collection reports to document cash collected.
- Require that each student club approves its disbursements and documents approval in its meeting minutes.
- Approve the disbursement only when the club has a sufficient cash balance. If the club's cash balance is not sufficient, the District should deny the requisition.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.